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RUEHLP/AMEMBASSY LA PAZ JUN 1067
RUEHPE/AMEMBASSY LIMA PRIORITY 2619
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C O N F I D E N T I A L QUITO 000482

SIPDIS

TREASURY FOR MEWENS
USTR FOR BENNETT HARMAN

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TAGS: [ECON](#) [ETRD](#) [EC](#)
SUBJECT: EU-CAN NEGOTIATIONS - NOT DEAD YET

REF: 07 QUITO 1478

Classified By: Jefferson Brown, Reasons 1.4 (b&d)

¶1. (C) Summary: Andean Community members Bolivia, Colombia, Ecuador, and Peru had agreed to continue negotiating an association agreement with the EU as a bloc, but EU representatives report Bolivia is obstructing progress. The EU may now allow countries to opt out of the commercial section of the agreement, an option Ecuador may or may not take. End Summary.

CONFUSING SIGNALS FROM THE ANDEAN COUNTRIES

¶2. (U) On the margins of the EU-Latin America and Caribbean summit May 17, Andean Community (CAN) ministers met with EU officials to discuss ongoing negotiations for an association agreement. According to media reports, during those talks CAN members took distinctly different approaches. Peru and Colombia asked the EU to step up the pace of negotiations. President Correa stated that he would not sign an agreement that did not improve EU immigration rules for Ecuadorians, but did not rule out negotiating as a bloc. He also noted that Ecuador and Bolivia wouldn't agree to "certain conditions" in a U.S. or EU agreement. A Bolivian government spokesman stated that the GOB would not negotiate a "free trade agreement" with the EU.

EU AND ECUADORIAN OFFICIALS CAUTIOUSLY POSITIVE

¶3. (C) The EC trade officer stationed in Quito characterized the ongoing EU-CAN negotiations as positive but frustrated by Bolivian demands for exceptions. For example, the GOB wants a five-year delay before beginning tariff reductions and wants to exclude 1,000 tariff lines altogether. The biggest sticking point is Bolivia's demand that tariff reductions be linked to their exports and only take place once their exports to the EU increase by a certain amount, a non-starter for the EU. The EC official noted that the CAN does not have a common position on IPR, services, or sustainable development, which will be discussed in a mini-round to take place in June.

¶4. (C) Ecuador's MFA Director General for Integration Jimenez noted that Ecuador has issues with IPR, government procurement, and sustainable development, but that IPR is really the only sticking point. However, he suggested that Ecuador's broad positions towards the EU negotiations may still be up in the air, since Pedro Paez, Coordinating

Minister for Economic Policy, is likely to exert greater control over trade policy relegating the Foreign Ministry to merely executing trade policy. He reported that the head of Ecuador's intellectual property institute and IPR negotiator in the EU talks (and former IPR negotiator in the U.S. FTA talks) was removed from office because his position on IPR was too pro-free trade.

OPTION TO OPT OUT OF THE COMMERCIAL AGREEMENT?

15. (C) On May 27, the EU Ambassador to Ecuador and Colombia announced that a country might be excluded from the commercial section of the EU-CAN Association Agreement but still be part of the other two sections of the accord (political dialogue and cooperation). He emphasized that the commercial section of the agreement was an "all or nothing" proposition, and an a la carte approach to the section would not be permitted. This option was clearly aimed at Bolivia, and possibly Ecuador. European Trade Commissioner Peter Mandelson also suggested to EU Parliament members that the negotiations could be split to put Ecuador and Bolivia on a slower track.

16. (C) Although this was a surprise to the local EC trade official, she later confirmed that, to provide additional flexibility, a country might be able to abstain from the commercial section of the agreement until conditions permit it to finish negotiations and participate. However, she stressed that the EU wants to continue negotiating with the CAN as a block and ruled out separate agreements by country. Trade with the CAN is less than 1% of EU trade, so the agreement is more political than commercial and the key purpose is to push regional integration, she claimed. She believes that an agreement is in Ecuador's interests, but the EU is such a small market for Bolivia that it is not really commercially interested in the agreement. Bolivia would need technical assistance and possibly a delay in order to meet current commitments of the commercial part of the accord, she asserted.

17. (C) The Executive Director of the Ecuadorian Business Committee, representing private sector interests, was pessimistic about Ecuador's commitment to trade negotiations and considers the EU statement a possible way out of commercial commitments for the GOE. His group met with the MFA to seek clarification on whether Ecuador would opt out of the commercial agreement. Following the meeting, on June 2 the Executive Director reported that he believes Ecuador will continue negotiating the commercial agreement, but was uncertain whether the country would be on a fast track like Colombia and Peru, or a slower track like Bolivia.

Comment

18. (C) With the most recent statements from the EU, the ball appears to be back in Ecuador's court as to whether to continue with the commercial negotiations within the EU-CAN talks. Opting out of the commercial pillar of the association agreement would result in a rather hollow accomplishment for the GOE, since the core of the agreement is the free trade provisions, with the political and cooperation pillars serving as nice embellishments. Last year, Ecuador helped mediate between Colombia/Peru and Bolivia and helped maintain the appearance of Andean unity. Now, it must make a decision between the two paths. Correa may be in the difficult position of being given an "out" and not wanting to take it.

Jewell